ABSTRACT

"EVALUATION AND ECONOMICAL-FINANCIAL PERFORMANCES OF INDUSTRIAL ENTERPRISES IN ROMANIAN ECONOMY"

The activity of an enterprise, regardless of its activity field, can be characterized in terms of achievements, of its effects, of how to fulfill set objectives. This can be quantified by various indicators and assessed by reporting them to a pre-established reference. In such a context, it is essential to know which of the recorded results may be associated with the concept of performance, on the conditions of observing the restrictions imposed by the sustainable development.

The assessment of the economic and financial performance of a company is a very complex activity and involves taking into consideration several quantitative and qualitative indicators, which have in view all sides of the business. Being efficient means to achieve or exceed objectives. The chosen reference system can be not only the objective to reach, but also the results of the competing firms, operating within the same sector. However, this consideration has a relative character, because it is possible that none of the actors on the market may not be able to achieve performance at a given moment. Therefore, the problem of measuring the economic and financial performances has been fully discussed in the economic literature over the years, and one can't say that this has been completed.

The developed research paper begins with a theoretical presentation of the concepts of value and economic and financial performance. To measure the value of the company, several **types of values** are used: market value; investment value; fundamental or intrinsic value; use value; liquidation value; residual value; scrap value; net realisable value; amount of equity; and book value. The value is not an exact amount, but only an opinion. It is different from the **price**, the latter being actually paid after a transaction or exchange rate, as opposed to value, a tangible fact, a real element, an exact amount. Value is the result of applying a calculation methodology and has an objective, neutral and independent character in relation to the parties involved in the transaction, the ratio of forces on the market and the market situation at a given time. It is very difficult to measure.

After reviewing the various points of view expressed in the specialized literature on the concepts of value and economic and financial performance, the indicators used for **measuring the performances** are presented comparatively, identifying the main deficiencies of the current system of financial indicators and the need to supplement them with other indicators.

The main components in absolute size of the traditional system of the indicators of economic and financial results of the company are: production of the financial year, turnover, value added, gross operating surplus, operating profit, gross profit (before tax) and net profit (after tax), self-financing capacity.

The relative size indicators are represented mostly by the economic efficiency indicators. They are calculated in the form of financial rates, as a ratio between the two absolute indicators between which there is a relationship, having an information content higher than each absolute indicator considered separately. The calculation model of these indicators eliminates de dimensional factor, making possible comparisons over time and space. Therefore relative size indicators are recommended in the comparative analyses of the performances of different companies. According to the elements on which they are calculated, the relative performance indicators are divided into two categories: rates of return and efficiency indicators regarding to the use of the production factors (labor productivity, efficiency of fixed assets utilization and the rotation speed of floating assets).

The indicators for assessing the performances are designed to provide information about various aspects of the economic activity, so that people can make decisions with full knowledge of the case. For the information provided by an indicator to be useful in the decision making process, certain conditions must be met. But even when these conditions are met, the analyst must be cautious in considering the value of an indicator to be certain, given that all indicators presents some information limits. Thus, an indicator measures one aspect of the economic life, having failed to capture the complexity, the influences, the relationships and the interconditionning correlations manifested in this area. The better the analyst knows the information limits of an indicator, the more he is able to eliminate some of them, by making corrections or by using complementary indicators.

To eliminate the shortcomings of the traditional indicators, it is proposed the use of modern results indicators, which correlate all decision-making processes, such as: economic value added, market value added or cash value added. Profit maximization may be replaced, in the new context, with the maximization of the gross operating surplus (GOS) or *operating cash flow* (OCF) (which is obtained by reducing the variation of the necessary working capital from the GOS).

In **Chapter 2** of the paper are presented the methods of evaluation of the enterprises, circumscribed to the three approaches (*the asset-based approach, the income-based approach and the comparison approach*), achieving a critical analysis of these ones, which enabled the identification of the advantages and limits of each approach.

In conclusion, one can appreciate that determining the value of an enterprise has a high degree of difficulty due to the multitude of factors that influence it and to a multitude of forms that it takes. Also, the value of an enterprise should not be pursued statically because it changes very quickly under the influence of the market and the economic-financial results achieved by the enterprise. The conferment of a dynamic character is possible by correlating the enterprise value with its economic and financial performances.

Chapters 3 and 4 assigned for the completion of a study on the economic and financial performances of the Romanian industrial enterprises and for the correlations between these performances and the companies' value. For this purpose, an overall analysis has been developed, based on data provided by the official statistics, the overall performances of the Romanian industrial firms for the period 2000-2007. For a detailed analysis, it was formed a sample consisting of 17 industrial companies listed on the Bucharest Stock Exchange, large companies, representative for the sectors they belong to, which is dispersed throughout the national territory and covers the main industrial sub-branches. For these firms, the financial reports for the period 2005-2007 are processed, and there are calculated the economic and financial performance indicators, grouped into three categories:

- indicators of the production and commercialization activity;
- profitability indicators;
- efficiency indicators for the use of the production factors.

The main conclusions drawn from the undertaken analysis refers to:

The **production of the financial year**, for all the companies analyzed, recorded a growth trend in the period considered. Of all the 17 companies analyzed in 2006, increases were recorded by 10 of them, for the other 7 companies the production of the financial year following a decreasing trend, while in 2007, increases were recorded by 14 companies and decreases only by 3 companies. The increased production of the financial year for most of the companies is appreciated favorably, representing the prerequisites for the growth of their economic and financial performances.

The **turnover** had an evolution similar to that of the production of the financial year. Thus, on the whole, it increased by 14.32% in 2006, respectively by 25.41% in 2007. In 2006, increases were recorded in 9 companies, the other 8 companies following a decreasing trend, and in 2007 there have been registered increases in 13 firms, only 4 firms following a decreasing trend. The highest growth rates, during the period analyzed, were recorded at ALBALACT and SEVERNAV, companies operating in the dairy products manufacturing, respectively in the shipbuilding fields. A significant increase in 2007 was also recoded by ROMCARBON (over 98%), company that produces plastics. Regarding the drops, the most affected firms were

ELECTROARGEŞ (Electronics manufacturing) and SAMUS MEX (production of furniture), companies that registered reductions in turnover in both 2006 and 2007.

The **value added** growth is higher than the increase in production of the financial year and in turnover, both in 2006 and 2007, an aspect favorably appreciated.

In 2006, 10 companies have registered increases in value added, the other 7 companies registering decreases. The most significant reduction has been at ARGUS, considering the decreases in the volume of activity, but also the losses recorded from the operating activity, while strong increases were registered in UPET and ALBALACT. In 2007 there have been recorded better results, the value added provided by 15 companies following an increasing trend. Thus, the situation has improved at ARGUS, this company acquiring profit from the operating activity, and the growth rate of value added being the largest of all the companies analyzed.

The degree of integration of production calculated for the 17 firms is around the average value calculated at the industry level, but the trend is different. Thus, if per the total industry, a descending trend has characterized the degree of integration, for the 17 analyzed firms the trend is ascending, an aspect considered favorable. Given the characteristics of the firms included in the analyzed sample (large companies, listed on the stock exchange) the situation is normal, the degree of material processing in such enterprises being generally higher compared to small and medium enterprises.

Most of the value added provided by the 17 companies was distributed to employees, who received 55.48% of the value added in 2005, percentage that decreased to 44.66% in 2007. The drop of the wage share in value added was not due to the reduction of wages, the staff expenditure following an increasing trend, but to the value added increase at a rate higher than the wage growth, an aspect considered favorable.

The wage share reduction has benefited shareholders. Thus, if in 2005 the 17 companies analyzed recorded (on aggregate) losses, the rate of remuneration paid to shareholders being negative, in 2006 and 2007 firms have registered a consistent profit, the remuneration of shareholders being of 26.03%, respectively 15.77%, an aspect considered favorable. The rate of remuneration paid to the state records close values in the three analyzed years, but a slight decrease in 2007, meaning a reduction of the fiscal pressure compared with the previous years. The rate of remuneration paid to banks recorded relatively low values (5-6%), in a slight decrease in 2007.

Regarding **profitability**, it was noted that in 2005, the 17 companies achieved a combined operating profit of 20,056,194 lei. Of these, 5 firms registered losses from the operating activity, of which, 4 firms registered losses also from the financial activity, so that the overall result for these companies was also negative. The fifth company (SEVERNAV) recorded

profits from the financial activity, which covered the loss from the operating activity, the overall result being positive. The other 12 firms had operating profits, while from the financial activity these ones registered losses lower than the operating profit, on the whole the companies recording profit.

In 2006, the combined operating profit increased to 84,739,719 lei, four times higher than that achieved in the previous year. The financial activity also provided profit, of 11,674,518 lei, the overall result being positive and showing a spectacular growth compared with 2005. As regards the distribution of the operating profit by companies, it turns out that this year too 5 companies registered losses. Of these, 4 companies also had losses in the previous year, thus having profitability problems. SEVERNAV and ELECTROARGEŞ continued to obtain significant revenues from the financial activity, which covered the losses from the operating activity, leaving only 3 companies with losses from the overall activity.

In 2007, the combined operating profit of the 17 analyzed companies continued to grow, reaching 125,750,423 lei. The financial activity has not generated any profit, 14 companies having losses, so the overall profit was smaller by 10.5% than that recorded in 2006. This year, only 2 companies had losses from the operating activity (SAMUS MEX and SEVERNAV), losses increased by the deficit recorded in the financial activity. In addition, the financial loss registered by ROMCARBON could not be covered by the operating profit, this company also having a negative overall result in 2007.

Situating each analyzed company (depending on the operating result, the financial result and the overall result) in one of the 6 categories, it can be noticed that most companies are in *case B - the Classical situation*, where the operating result is positive and large enough to cover the loss from the financial activity, resulting in a positive overall result. In 2005, we find an important group of companies (4 companies) in the *case D - "Brinkmanship"*, for which both the operating result and the financial result have negative values. The situation changed in 2006 when only one firm is still in this situation, two of them moving in case F and another one in case A.

In 2007, the profitability of the 17 firms continued to improve, 14 of them having a positive overall result, finding themselves in areas A and B, 2 in case C (brinkmanship) and one in case E, when the overall loss was generated by the financial activity.

In conclusion, based on the absolute profitability indicators, during the period 2005-2007 there have been several companies with financial difficulties, but most fall into the category of profitable enterprises. In addition, during the considered period, the companies' profitability followed an improving trend, with beneficial effects on their performances.

Following the distribution of the 17 companies after the rate of return on assets, these can be grouped into three groups:

- **Group** A consisting of 3 companies that were unprofitable in at least two of the three years: UPET, MEX and SAMUS ARGUS;
- **Group B** consisting of 9 companies which, although they were profitable, their profitability level was insufficient: ARTECA, ROMCAB, MAT, SEVERNAV, BEGA TEHNOMET, ELECTROARGEŞ, PRODLACTA, TRANSILANA and ROMCARBON;
- **Group C** consisting of 5 companies with a satisfying level of return on assets: ARTEGO, LAFARGE, IPROEB, ALBALACT and DUCTIL.

Based on these data, we appreciate that although most analyzed companies obtained profit during the considered period, the level of rate of return is insufficient to pay shareholders and creditors, companies being obliged to take measures in order to improve the situation.

Labour productivity tended to increase throughout the analyzed period. Thus, for all the 17 companies analyzed, it increased by 23.82% in 2006, respectively by 22.41% in 2007. Following the dynamics of labour productivity by firms, we find that there have been increases at 12 analyzed companies, for the other 5 the trend being of reduction. The highest growth rates during the analyzed period were registered at ALBALACT and SEVERNAV, companies operating in the dairy products manufacturing, respectively in the shipbuilding fields. Regarding the drops, the most affected firms were ELECTROARGEŞ (Electronics manufacturing) and SAMUS MEX (production of furniture), companies that also registered profitability problems.

The **efficiency of fixed assets utilization** dropped, both in 2006 (by 1.27%) and 2007 (by 22.48%), situation judged unfavorable. The situation was due to an increase in fixed assets value in a higher growth rate than the increase of the production of the financial year.

The **rotation speed of floating assets** for all the 17 analyzed companies didn't known significant differences from one year to another, an average rotation lasting 200 days. Analyzing the rotation speed of floating assets for all the 17 companies, we find that the biggest problems are found in the supply stage, raw materials having the longest period of immobilization, but this was reduced significantly in the last year of the time horizon.

The indicators analyzed were aggregated into a system that allows calculating a *general score* for each company, based on which it is placed in an area of performance. Of the 17 companies analyzed, only 11 registered positive values of the total score, 2 companies had values equal to 0, and 4 had negative scores.

The companies' performances are closely related to the financial structure and their value. Therefore the study conducted goes on with the analysis of the financial structure for the firms

selected in the sample and its correlation with profitability. Thus, a balanced financial structure optimizes the costs for attracting financing sources, having a direct impact on the financial results achieved. At the same time, an increased profitability ensures the shareholders incentive compensation, increasing their interest for supporting new investments. To this end, in addition to the classic indicators, a specialized software is also used (Statistical Package for the Social Sciences) which measures the dependence of the variables had in mind. In the study conducted, the Pearson correlation coefficient takes the value -0.839 which means the existence of an acerage intensity reverse correlation between the rate of return on equity and leveraging. This means that for an increase in the leveraging degree is recorded a decrease in the return on equity. The purpose of calling on credits is precisely to increase the rate of return on equity. For the 17 companies analyzed, contracting credits has led to lower return on equity due to the unfavourable gap between the rate of return on assets and the interest rate. Therefore, to explain a larger part of the variation in the rate of return on equity we have introduced in the analysis a second factor of influence, respectively the "arm of the financial leverage" calculated as the difference between the rate of return on assets and the average interest rate on the loans contracted. It can be noticed that for all the 17 firms the arm of the financial leverage arm is negative (-1.35), which means that the recourse to loans to finance the business led to lower return on equity, thus confirming the previously reported reverse correlation. By companies, it is found that for 9 of them the arm of the financial leverage is negative, and for the other 8 is positive.

Depending on the level of profitability achieved, the value of the company may increase or decrease. To suprinse the correlation between the performances and the value of the enterprises, we have turned to modern indicators such as economic value added, market value added and cash value added.

Comparing the rate of return on invested capital with the cost of the invested capital it can be observed that for 14 of the 17 companies analyzed the results are below the investors' expectations, which generated a negative economic value added. Only 3 companies had in 2007 a rate of return on assets higher than the cost of the invested capital and therefore a positive economic value added. For the 17 firms altogether, the cost of the invested capital was of 18.87%, higher than the rate of return on invested capital (10.09%), the economic value loss being of 109,462,194 lei.

At the end of 2006, 10 of the 17 analyzed companies were recording a quotation lower than the net accounting asset, which means a negative market value added, situation unfavourably appreciated. Positive market value added were recorded in the other 7 companies. All the 17 companies registered in late 2006 a market value added of 84,493,036 lei, causing an increase by 14.32% of the aggregate equity value. In 2007 the situation of the analyzed firms has

improved, only 6 of them recording a negative market value added. The total market value added amounted to 654,200,637 lei, being by 674.3% higher than that recorded in the previous year, causing an increase in equity by 67.55%, which is favorably appreciated.

Comparing the market value added at the end of the two years, it turns out that in 2007 there have been losses of value at 5 companies. The other 12 companies added market value, the largest increases being recorded at IPROEB and ROMCARBON.

Given the current conditions in which firms operate, in the end of this paper we have presented their performances in terms of economic and financial crisis.

After a period of sustained economic growth, towards the end of 2008 the Romanian economy entered into crisis. The causes of the crisis manifested in Romania are different, some of them are typically internal, caused by mistakes in the macroeconomic policy in recent years, but most of them are typically external, caused by the economic and financial global crisis.

To identify the impact of the crisis on the economical-financial results of the Romanian industrial enterprises, based on the financial preliminary data, an analysis is performed at the end of 2008, finding that the analyzed indicators are within the limits of a normal development, not being significantly influenced by the economic and financial crisis, which may be explained in two ways: on the one hand the effects of the crisis on the economic and financial results were not shown so quickly, towards the end of 2008 the crisis was just beginning, and on the other hand, good results obtained in early 2008 have offset the reductions recorded towards the end of the year.

From the analysis carried out, it turned out that the economic and financial performances of the Romanian industrial enterprises have improved during the period 2005 - 2007, but their level was not high enough to allow incentive pay for equity owners. The end of 2008 marked a setback in the evolution of the economic and financial indicators, a trend that tends to be unfavorable in 2009 against the backdrop of the global crisis. Therefore, we consider that a coherent analysis of the current situation of each company to identify the strengths and difficulties they face, together with taking concrete, impartial measures, to overcome these difficulties, is a necessity for the management of any company.